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MAY 1, 1990
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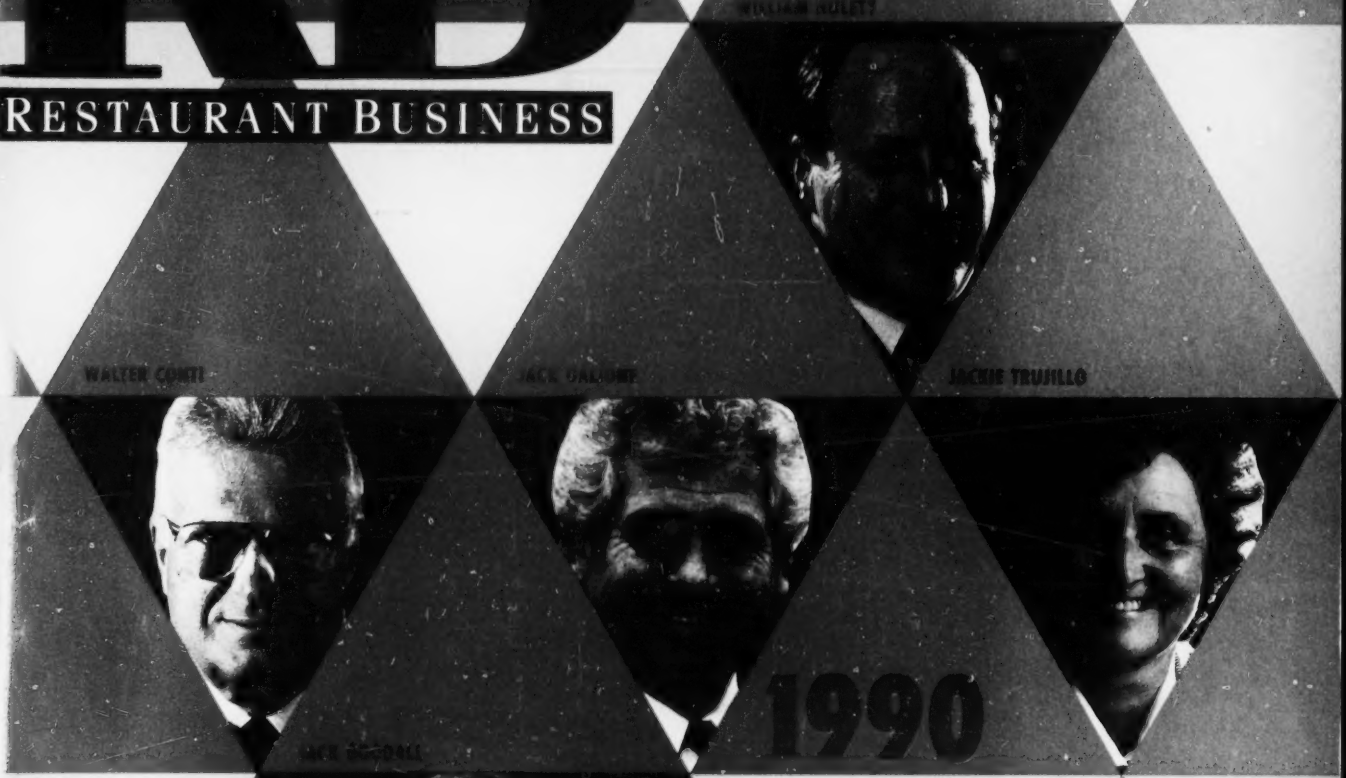
RESTAURANT BUSINESS



1990 Business Leadership Awards

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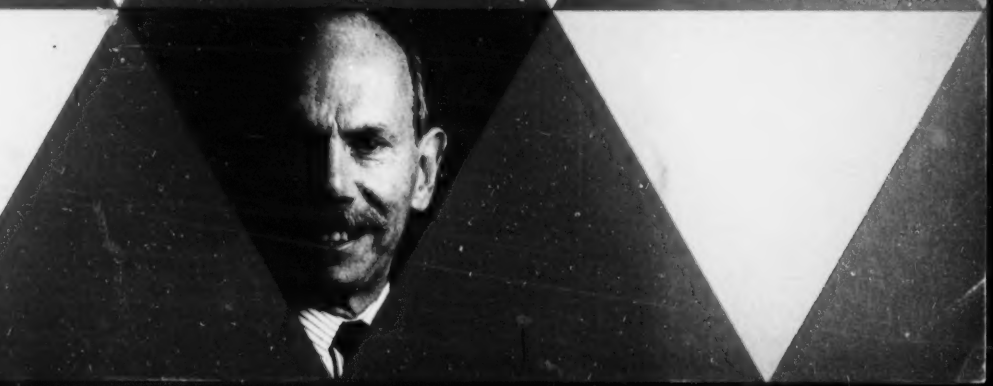

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BUSINESS BAROMETER

Do Customers Care About Nutrition?

Source: National Restaurant Association

An NRA study shows that the percentage of customers who select nutritious items when ordering in restaurants is on the rise. Respondents were asked a series of questions designed to reveal whether they are "committed" or "unconcerned" about good nutrition when dining out; a third group, the "vacillators," formed 29% and 27%, respectively, of the survey population in 1986 and 1989.

Sandwiches Gain in Popularity

(Number of total sandwiches on 50 sample menus)

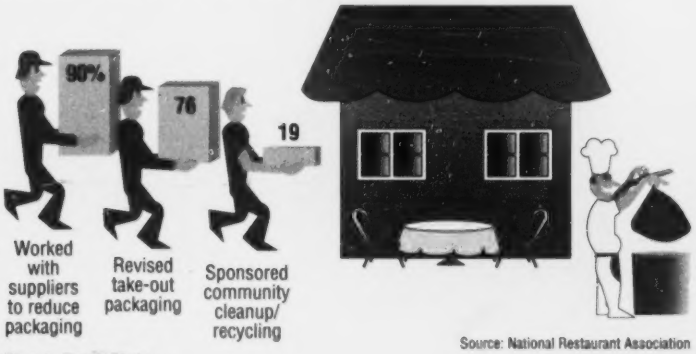
	1984	1989	% increase
Hamburgers/ cheeseburgers	112	141	+ 26
Other beef	56	114	+104
Chicken	13	37	+185
Club	10	25	+150
Mixed meats & cheese	8	21	+163
Eggs	13	2	- 80

Source: National Restaurant Association

Sandwiches are popping up on more menus, according to a recent NRA survey, which compared the contents of 50 menus, dating from 1984 with the contents of 50 1989 menus. There were 513 sandwiches listed on the 1989 menus, a 55% increase over the 330 listed in 1984. While chicken sandwiches have grown in popularity, so have hamburgers and other beef sandwiches.

Restaurants Reducing Waste

(% of respondents who have done the following)



Source: National Restaurant Association

Charts by Peter K. Niceberg

Faced with increases in both solid waste disposal legislation and the cost of trash collection, restaurant operators have been forced to take steps to reduce the amount of waste they generate. Over the 12-month period ended September 1989, 57% of those operators of chains with 350 or more said they had experienced increases in solid waste collection or disposal costs.

RESTAURANT BUSINESS

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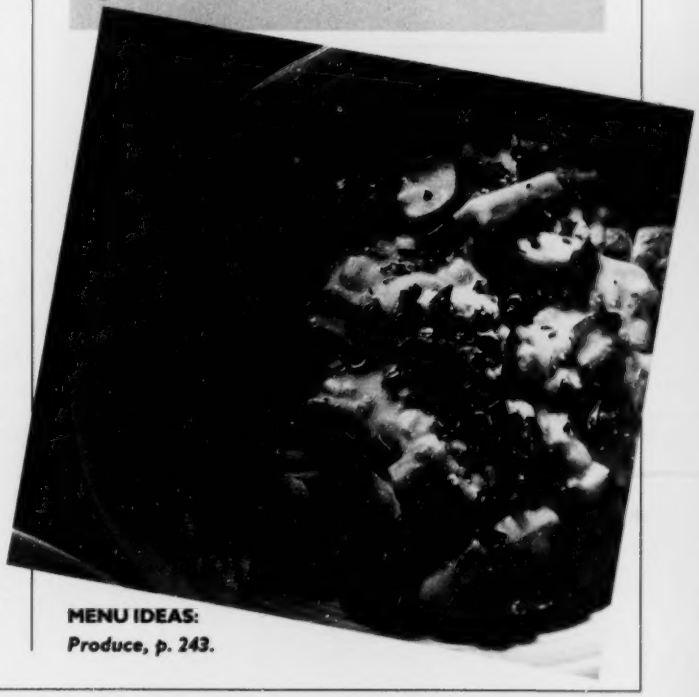
COVER STORY DOWNSCALING OF FINE DINING The demand for more moderate prices and more informal dining is sweeping the country, and operators are responding to a very clear imperative in a number of ways: They are lowering prices; they are opening cafes next to their upscale restaurants; and they are introducing daily specials, fixed-price menus, and lower-priced selections. Restaurateurs are doing what they can to boost business in a slow market.

MARKET REPORT PIZZA. The segment's most dramatic growth has been spurred by the increase in the delivery market. A case in point is segment-leader Pizza Hut; its expansion strategy is now based primarily on an array of new carry-out/delivery-only formats, rather than on its traditional full-service restaurants.

MENU IDEAS BEEF. This menu category poses all kinds of possibilities for capitalizing on the craze for ethnic foods. Featured dishes include Hungarian goulash soup, Mongolian hot pot, grilled short ribs, brisket with the fixin's, and braised and grilled veal breast.



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HAWAIIAN CRUISE RECIPE CONTEST

Aloha is the native Hawaiian term of greeting.

Now Athens/Apollo Food Group invites you to welcome light, flaky, delicious FILLO® dough into your menu for a chance to win a 7-day luxury cruise of the Hawaiian Islands.

Discover how this low cost, healthy alternative to puff pastry can give any dish a more elegant presentation and higher menu price, for greater profits.

Enter our contest with your finest FILLO menu ideas. Winning recipes will be selected by Certified Master Chefs from the Culinary Institute of America.

GRAND PRIZE: 7-day luxury Hawaiian cruise.
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3 SECOND PRIZES: $500 in each category.
19 FINALISTS: Year's supply of Athens FILLO Dough, during a 3-day Chef's Tour of Cleveland, capped by a Gala Awards Dinner.

Free FILLO Recipe Book to every entrant.

CALL 800-321-2010
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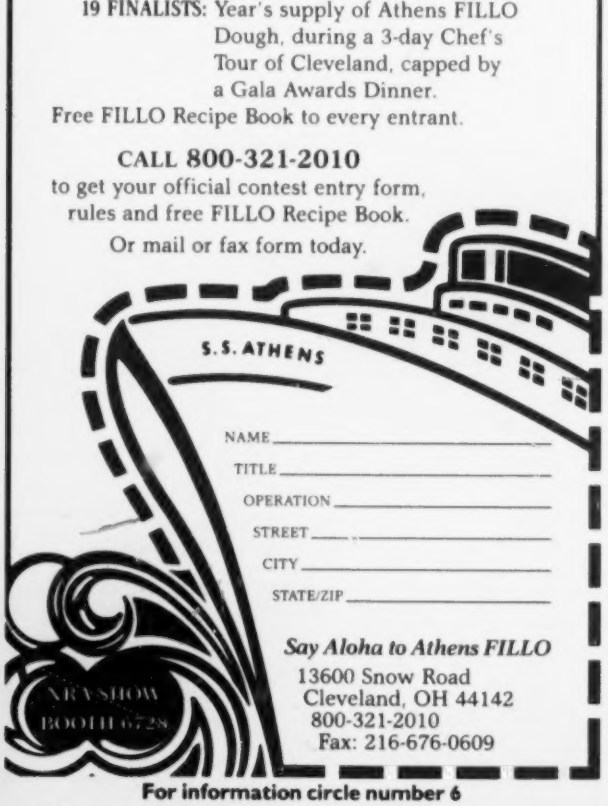
Or mail or fax form today.



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Roadside Ads Gaining Steam

Sure, outdoor advertising is an efficient way to reach customers who make snap dining decisions in their cars. But if you think of billboards as the dull, ugly "turn left ahead" signs of yesteryear, think again. Today's most effective outdoor advertising uses less conventional creative devices to make its point.

Chevy's, an 18-unit San Francisco-based chain of Mexican restaurants, recently hyped its "Fresh Mex" scratch-made food approach by portraying a can of refried beans with the international negation sign scrawled over it.

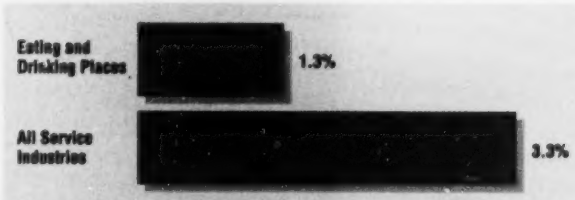
"We find that the simpler the message, the better," says Chevy's marketing director Laura Humm. "We're very happy with outdoor."

Others seem just as happy. The Marie Callender's family restaurant chain, based in Orange, CA, set up billboards in 17 markets featuring menu item puns such as "Love & Quiches" and "Que Pasta," helping to achieve 30 consecutive weeks of sales increases over the previous year (also see page 186).

The largest user of nontraditional outdoor advertising, however, is none other than McDonald's. "Outdoor ads enable me to plant the idea of coming into McDonald's long before the customer gets to that row of restaurants," says Conrad Roberts, regional marketing manager for McDonald's Corp.

The secret is apparently out. Total outdoor ad spending in 1988 grew 27% to $36 million, from $28 million in 1986.

EDP EMPLOYMENT SLUGGISH



1989 vs. 1988 Employment Growth

Employment at Eating and Drinking Places (EDPs) rose only 1.3% in 1989. Average monthly employment at EDPs was 6.4 million in 1989, as compared with 6.3 million in 1988, according to the U.S. Department of Labor. This sluggish growth is a result of weak industrywide real sales growth, pegged at less than 1% by the U.S. Department of Commerce. Employment for all service industries grew 3.3% in 1989, for an average monthly employment of 83.1 million.

SOURCE: U.S. Department of Commerce.

Country Kitchen Travels Far East

Carlson Cos. is targeting Asia for the first overseas expansion of its typically American restaurant chain, Country Kitchen. The Minneapolis-based company recently inked a deal for the development of up to 200 Country Kitchens in Japan.

The agreement between Carlson and C.K. Japan calls for the first five Country Kitchen restaurants to be developed by the end of 1991. Plans call for 80 restaurants in Tokyo, 50 in Osaka, 50 in Kyushu, and 20 in Tohoku and Hokkaido.

The family restaurant chain, which operates 252 units in the U.S. and Canada, will travel to the Far East with its concept intact, says Juergen Bartels, president of Carlson Hospitality Group.

"There will be no concessions to the concept internationally; this will be pure Americana," he says. The pricing, however, will more than double, from an average check of $4.20 in the U.S. to about $10 in Japan.

Additionally, Carlson has signed an agreement for another 40 restaurants to open in Canada. The company projects a total of 315 North American Country Kitchen outlets by 1992.

Country Hospitality Inns, the company's limited-service economy lodging chain, is also slated for growth. Plans call for it to triple from its current 14 sites, with 12 more Inns in the U.S. and 16 start-ups in Canada—its first international units. Many will share sites with Country Kitchen.

Insights cont. on p. 50

Going, Going, Gone

They say a good man is hard to find, but would your female customers pay for a date with one?

They would, especially if the proceeds were going to the Muscular Dystrophy Association. At least that's what the bartenders at McGuffey's Hendersonville and Asheville, NC, restaurants thought when they came up with the idea of the First Annual Bachelor Auction as a fundraiser for the cause. The auction took place at the Hendersonville and Asheville units, on February 28 and March 14, respectively.

Some 200 women arrived ready to put hard cash on the line for a date with one of the 20 eligible young men who took part in the two auctions. "We raised $1,600 between both restaurants," says McGuffey's public relations director Sandra Eastridge. "The auction was a real business builder," she adds.

The gents were brought out all together, then ushered out one by one by a female escort. "A young man named Todd brought in the highest bid—$165," says Eastridge. "He seemed to have a following. He's a very handsome gentleman," she notes. But in the spirit of equality, a female escort was auctioned off at the end of the night. "She brought in $225," says Eastridge.

—Diane Kochilas

ILLUSTRATION BY NURIT KARLIN

Chart House Is Historic

It's official. The Fort Lauderdale Chart House has been given historic certification for the two homes it occupies in the riverfront district.

"Now we feel genuinely a part of the entire Fort Lauderdale historic movement and the Riverwalk Project," says manager Mike Miller.

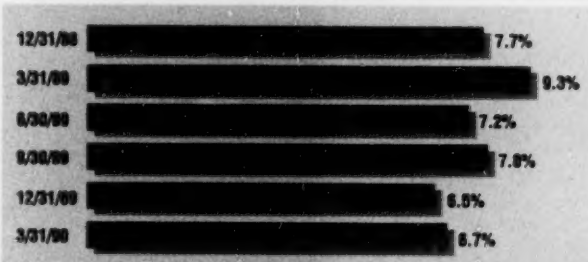
The Chart House looks like one building, but it is actually two separate turn-of-the-century homes—the Reed and Bryan Homes. Both homes still retain their original foundation, framing and block construction.

Reflections on a Labor Crisis

With the labor crisis worsening, Jim Sullivan, president of Denver-based Pencom Inc., a restaurant training and consulting company, has come out with a list of "creative alternatives for the process of hiring, retaining, and finding quality restaurant employees."

- Give your business card to employees you meet in other restaurants that give you exemplary service.
- Offer a "bounty" to other employees for referrals of family or friends who become good employees (and stay with you for at least 90 days).
- Design an action or employment contract for new employees detailing the expected behaviour and levels of advancement they must attain for raises and promotions. Have them sign it and review it periodically with their manager.
- Put ads in local senior citizen newsletters or activity bulletin boards.
- Advertise in local high school or college newspapers, or athletic game programs.
- Contact local colleges with hospitality programs, co-op education offices, or job placement offices and put up a flyer.
- Start thinking of, and treating, your applicants and employees as customers. Do you keep them waiting? Would you treat your guests like that?
- Encourage part-time workers. Don't confuse part-time employment with part-time commitment.

FAST-FOOD RETAIL SALES GAIN



According to the U.S. Department of Commerce, retail sales for fast food rose to $16.6 billion in the fourth quarter of 1989, a 6.5% increase over the year-ago period (but lagging the 7%-plus rate enjoyed in the 1988 fourth quarter, due to poor weather). For 1989 overall, fast-food sales rose a healthy 7.6%, to $65.5 billion (subject to revisions in April 1990). Technomic forecasts a slight improvement in fast-food sales for the first quarter of 1990, to $6.7%, thanks to the relatively mild winter.

SOURCE: U.S. Department of Commerce; TECHNOMIC INC.

Grandy's $3 Million Texas Makeover

Lewisville, TX-based Grandy's has spent about $3 million sprucing up its 42 company-owned stores in the Dallas-Fort Worth area. The units, most of them built in the 1970s and early 1980s, now feature a green and paprika color scheme.

"These stores are located in our flagship market, so they are the oldest," says marketing director Mary Neal, explaining why the remodeling was necessary.

To give the exteriors a more contemporary look, window awnings and under-the-roof trim have been added. New signage has been installed as well. Grandy's has 107 company-owned and 88 franchised stores.

Insights cont. on p. 54

Off and Running

Food fanciers of the world, unite! The U.S. Chefs Open, set to open on May 5 and 6 at the Georgia World Conference Center in Atlanta, will be a haven for food lovers of every persuasion.

The Atlanta event will feature cooking demonstrations, restaurant samplings, recipe contests in 20 food categories—for professional and amateur chefs as well as for Georgia high school home-economics students—seminars, exhibits, music, and other entertainment.

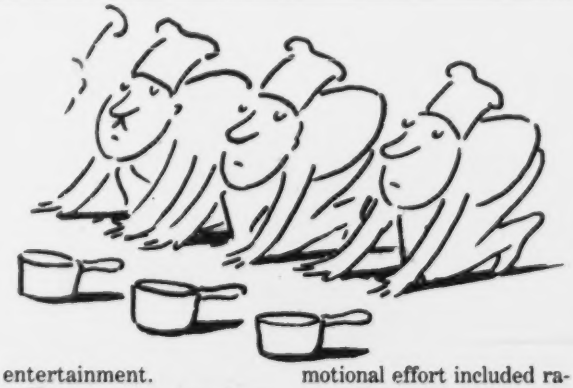


ILLUSTRATION BY NURIT KARLIN

The program has been supported by an intense promotional campaign that began eight weeks in advance of the event. The promotional effort included radio, TV, and newspaper publicity, as well as in-store demonstrations and product promotions at some of the sponsoring grocery store chains like A & P, Big Star, and Kroger.

"We planned to make the U.S. Chefs Open a national cooking contest," says president Dan Baitcher, "but we've evolved into being an international food festival instead."

Some 70,000 food lovers are expected to take part in the Atlanta exhibition, says Baitcher, which is expected to expand to other cities. "Within three years we hope to be running Chefs Opens in 40 U.S. cities."

–Diane Kochilas

Great American Goes South

Marion, OH-based Great American Restaurants Inc. (GAR) has moved into the Southeast with the acquisition of 23 Denny's in Alabama, Georgia, Louisiana, and Tennessee. GAR is now Denny's largest franchisee, with 34 units. The company also owns 40 Ike's and Buttered Beans restaurants in four Midwestern states. At least 30 of these will be converted to Denny's by 1993, says Carole Ann McNamara, Great American's v.p. of administration.

Treacher's New Owner

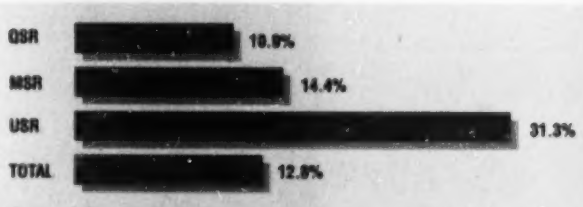
Arthur Treacher's Inc., the Youngstown, OH-based operator of the 94-unit Arthur Treacher's Fish & Chips chain, is in the process of transferring a majority ownership to its largest franchisee, Bloomsburg, PA-based M.I.E. Hospitality Inc.

At press time, details were pending. The transaction will, however, leave M.I.E. with 51% of Treacher's stock, according to Treacher's president James R. Cataland.

The chain has not shown a profit since 1984, when its net earnings were $180,000. Last year, the company lost $195,000 on sales of $36 million, says Cataland. The year before, it lost $272,000. For fiscal 1990, ending June 30, Cataland projects that the company will break even.

"If the deal goes through, we may concentrate a little more on franchise development, and on increasing the number of restaurants at a faster rate," says Cataland. The new units will be located in malls, he adds, where sales volumes average between $400,000 and $600,000.

PUBLIC COMPANY PERFORMANCE



Percent Growth in Net Income 4th Quarter–1989

Net income jumped by 12.8% for the 80 companies tracked by Technomic – good, considering revenue increased just 10.8%. Spurred by McDonald's (up 12.9%), net income for all QSR chains rose 10.9%. PepsiCo did not fare as well: KFC's net dropped 25.9%, while Taco Bell's fell 5.9%. Pizza Hut's net rose 2.1% on 18.8% revenue increases. Midscale highlights included Cracker Barrel (up 45.4%), Shoney's (39.2%), and Vicorp (74.7%), driving net income for the category up 14.4%.

SOURCE: TECHNOMIC INC., Company Quarterly Reports.

Tropica Opens

Restaurant Associates (RA) has opened the Tropica Bar & Seafood House at a site that for years housed the company's Charlie Brown's concept—the concourse level of Manhattan's Pan Am Building. Modeled after an island plantation owner's home, and specializing in fresh seafood, Tropica has two different menus, one for the cafe and another for the dining room. New York-based RA was recently acquired by Kyotaru Co. Ltd., Tokyo.

Rhymes and Readings

Poet Mark Smith has revitalized Chicagoans' interest in poetry. But he doesn't hold poetry readings on college campuses or libraries, as one might expect. Instead, he has introduced poetry readings to the city's coffee shops, cafes, and jazz clubs with "Poetry Slam," a poetry extravaganza showcasing poems with off-beat interpretations.

For instance, customers may hear a dramatic reading while a tap dancer performs in the background. "I encourage poets to be as creative as possible. Some sing their poems, use video screens, wear costumes, or feature dancers," Smith explains.

ILLUSTRATION BY NURIT KARLIN

The three-fold event begins with an "open mike" set, followed by the performance set, and then ends with the "slam" portion, pitting poets against each other.

Since Smith created Poetry Slam in 1986, it has caught on in many of Chicagoland's night clubs and eateries. The jazz club, the Green Mill, holds the event every Sunday evening. It's also popular in such spots as the health-food restaurant, Heartland Cafe, and coffee shops located around the city.

"I wanted to take poetry out of the ivory tower and present it to the public in an entertaining way," Smith says.

"I agree with Carl Sandburg's philosophy that poetry speaks the passions of all people. And, since most people hang out in restaurants and night clubs, they're good places to revitalize the interest in poetry."

Poetry Slam has spun off similar events in Chicago, and across the country. It has spread to eateries and night clubs in Milwaukee, Nashville, and New York City.–**Lori Barker**

ICE CREAM & YOGURT

MARKET SEGMENT REPORT

Customers are seeking hedonistic gratification.

by Nancy Cohen

The search for guilt-free indulgences is driving the frozen dessert market. Frozen yogurt, and especially lowered fat products, are the fastest growing part of the $2.034 billion segment. Across the board, traditional ice cream chains are adding yogurt. And even yogurt is no longer the nutritional pinnacle of frozen desserts; both ice cream and frozen yogurt chains are developing products with lower fat, sugar, and calorie contents.

"Frozen yogurt is where we'll be seeing our growth," says Carvel Corp.'s Savio Tung—and executives at most segment chains echo the sentiment.

HEDONISM. But while consumers may have heightened awareness about nutritional contents, they are also seeking hedonistic gratification. Flavors like Praline Dream, Amaretto Cheesecake, and Chocolate Caramel Nut are hardly Spartan. And paradoxically, many consumers seem to rationalize that if they are saving on fat and calories with a nonfat frozen yogurt, they can splurge on whipped cream, fudge toppings, or candy mix-ins.

"The trend in the U.S. is toward a concern with fat and cholesterol, but people are not willing to sacrifice taste for it," says Steve's Ice Cream vice president David Smith. "We've come along and said they don't have to. Though our Gourmet Light products aren't for people on diets, they are for people who want to eat lighter. In order for a product to be successful now, it must offer those benefits plus taste."

MATURATION. With all the heated competition, not only between ice cream and frozen yogurt retailers, but from supermarkets and convenience stores as well, the frozen dessert segment is beginning to demonstrate classic symptoms of maturation: slowed unit growth and expansion into nontraditional sites, product diversification, and mergers and acquisitions.

"We've had a tough time adding sites because we're seeing real saturation," says William Hawfield, president of the 125-unit Penguin's Place. "The shakeout is finally hitting our California markets, though mom-and-pops are feeling it before the chains. For every one of our stores, I think there are fewer competing yogurt stores than there were one year ago. Our strategy is to win the share from those who've fallen out of the market."

Yogurt chains in particular may face stiff competition as the more established, more widespread ice cream chains step into what was once their exclusive province. "In a very short time, we can put yogurt into more outlets than TCBY even has in total," says Mike Sullivan, president of the 5,206-

continued on page 226

The leader in the frozen-yogurt subsegment is TCBY.

The search for guilt-free indulgences is driving the frozen-dessert market.

unit International Dairy Queen.

"Companies the size of Baskin-Robbins can cover all the segments, while a yogurt-only store may have more trouble," says Marilyn Novak, director of marketing services for Baskin-Robbins. "Frozen yogurt has brought customers back."

According to the New York City-based research group FindSVP, the number of foodservice operations offering machine-dispensed frozen yogurt grew at a compound annual growth rate of 53.3% between 1985 and 1989, from 250 units to 4,676—and that is expected to nearly double to 8,625 by 1993.

In fact, the addition of yogurt to the product mix may have been an issue of survival for the ice cream retailers. Ice cream sales were fairly flat in 1989, but the category overall "was growing by leaps and bounds," says Millie Lemajich of RE-COUNT, the Evanston, IL-based consulting group.

The number of retail units in the ice cream category actually declined somewhat: from 21,805 in 1988 to 21,496 in 1989, according to Lemajich. Although the number of yogurt purveyors remains dwarfed by the ice cream market, the segment grew by more than 25% last year, from 1,923 to 2,564 units.

VARIETY. Baskin-Robbins, Glendale, CA, was among the first chains to leverage its reputation for ice cream into a variety of frozen desserts. With its store count staying fairly constant at 3,351 (2,354 domestically), product expansion, rather than unit expansion, has been the focus of its energies.

"We're telling a selection story now," says Novak. "The whole frozen dessert market is very, very fragmented. To appeal to each segment, we must have a number of products. They may overlap, but that's fine. We are now back to being a place the whole family can come to, where everyone will find something they like."

The diversification began with the introduction of low-fat frozen yogurt in 1987, followed by sundae bars, new special flavors, nonfat yogurt, and soft-serve sorbets in 1988. Last year's major introduction was the "low, lite 'n luscious" frozen dessert (97% fat-free, and sweetened with aspartame).

This year, Baskin-Robbins is introducing another calorie-conscious dipped product, Baskin-Robbins Light, a 93% fat-free, all-natural dessert, with 110 to 130 calories per serving. It will be available in four flavors: Strawberry Royale, Praline Dream, Espresso and Cream, and Chocolate Caramel Nut. With Light taking the lead position for weight- and cholesterol-watching markets, the chain will reposition its "low, lite, 'n luscious" as "sugar-free," a product for diabetics, says Novak.

Zack's Famous Frozen Yogurt is eyeing international markets for growth.

Although Baskin-Robbins' focus is trained on lighter products, its 620-flavor selection ranges up to International Creams, its superpremium product. A new ad agency will underscore the message with its campaign, "Now there's more to love us for."

Another avenue for growth in the coming year will be an increased emphasis on take-home sales, Novak says. More products in a greater variety will be available in-store; upright refrigerator cases will be available by summertime. "Part of the fun of going to Baskin-Robbins is looking into the dipping cabinets at all the flavors, but today, people don't have the time to wait for a favorite flavor to be packed into a pint," Novak says. All-new packaging will draw additional attention to the line.

The other major ice cream players

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are adding health-conscious products. Tastee Freez International, Utica, MI, is planning a complete frozen yogurt program, which it will add to its signature soft-serve ice cream line.

"With a nonfat yogurt product that has roughly the same calorie content as the soft-serve, we can get out the message on soft-serve at the same time that we get into yogurt," says Chris Raab, director of marketing. "We want to minimize the differences between the products, other than the fat content."

The opportunity for Tastee Freez is to offer its customers their first taste of frozen yogurt. "Many of our locations are way out in the country, where many people have never tried frozen yogurt before," Raab says. The chain is concentrated in the Southeast and Mid-South, as well as parts of the Midwest.

Tastee Freez also carries a gourmet ice cream, a hand-dipped, 12% butterfat product, which is made in-store. "You've got to have a gourmet ice cream to drive the average ticket higher," Raab says.

About 40% of the chain's sales derive from dairy, and 60% from food. It offers a complete sandwich and burger line, and plans to introduce cheddar fries later this year.

MARRIED CONCEPTS. The 40-year-old chain has whittled back its units, from 404 at the end of 1988 to 368 at the end of 1989. Thirty more are slated to open this year.

The chain has looked to new kinds of sites for growth; in addition to its free-standing, full-menu, fast-service Heritage concept (which accounts for about 122 units now), it is pursuing "marriage concepts."

Frozen yogurt is the fastest-growing part of the market.

Through an agreement with Love's Country Stores, Tastee Freez is franchising Tastee Freez sections within the convenience-store chain. Two more units are due to open this spring.

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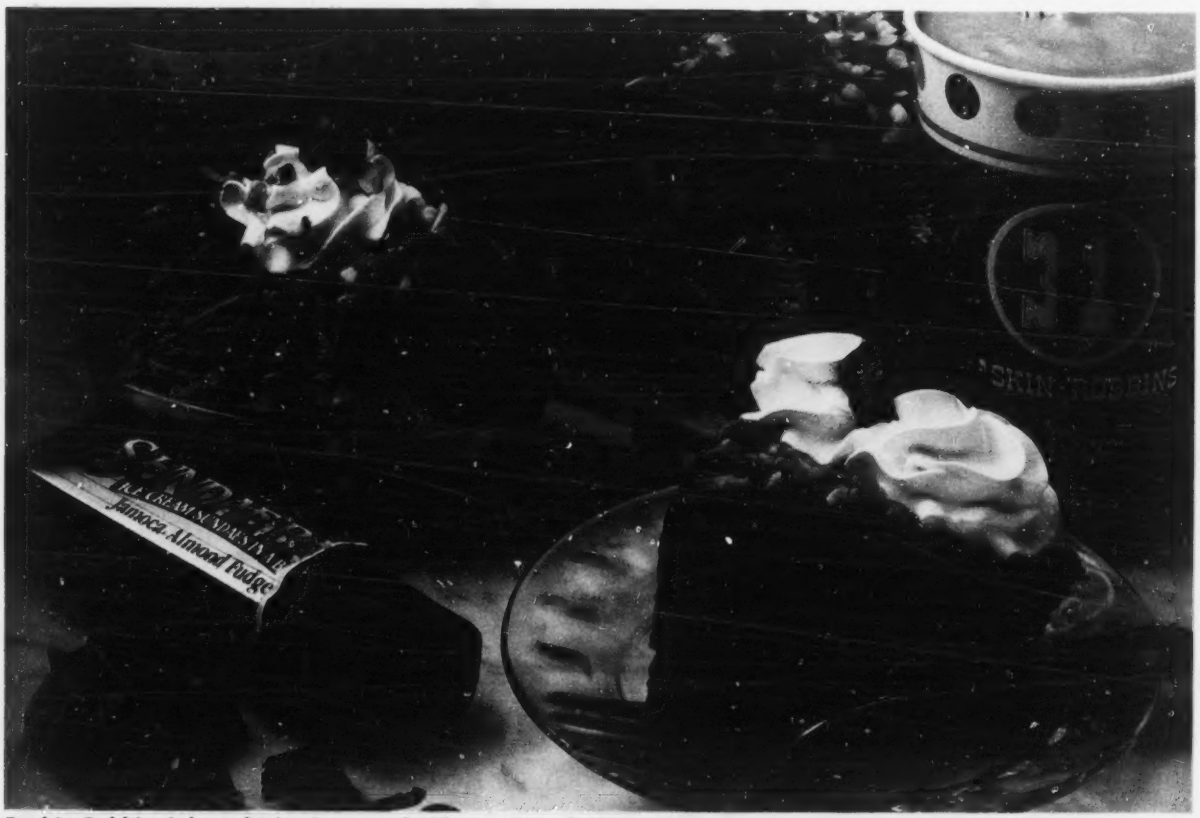

Baskin-Robbins is broadening its appeal with a variety of new products.

"The name 'Tastee Freez' conveys 'cold,'" says Raab. "If we remove burgers from the formula, we should be able to franchise successfully as an ice cream shop."

International Dairy Queen (IDQ), which is celebrating its 50th birthday this year, is keeping up with the times by extending its soft-serve ice cream line into frozen yogurt. The Minneapolis-based chain far outpaces the industry with its 5,206 units (4,627 domestically) and $2.2 billion in systemwide sales in fiscal 1989.

IDQ's new yogurt product is tightly focused to fit into its format: a nonfat, cholesterol-free, vanilla-based product for any of 15 mix-ins. The yogurt "Breeze" will be the equivalent of IDQ's "Blizzard" ice cream mix-in product. It will be offered in cones, cups, and novelties, and be rolled out to 2,000 units by summer.

"Yogurt is complementary to our other treats," says IDQ president Mike Sullivan. "Our obvious advantage is that it's in the soft-serve family, which we know how to do successfully."

Another new product, which will be promoted systemwide this summer as part of Dairy Queen's birthday celebration, is a waffle cone sundae.

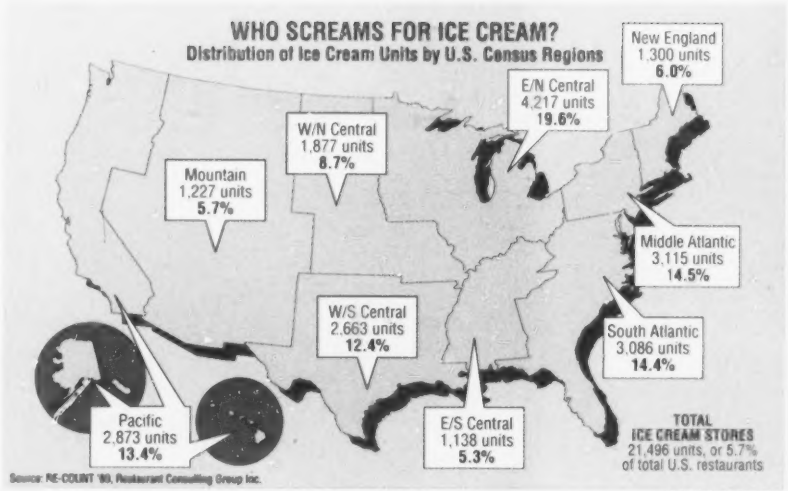

Chart by Peter K. Nicoberg

Yogurt has proven so irresistible that the ice cream chains are adding it to menus.

Ice cream sales have been fairly flat, Sullivan admits, but IDQ banks on its diverse menu as insurance of steady sales. About 80% of IDQ stores have a food menu, which is faring better than the industry as a whole, Sullivan says. A number of new food items are scheduled for introduction later this year, in response to consumers' growing interest in nutritious foods.

"With all the competition, the high rents, and the problems with seasonality, a one-product concept is vulnerable," Sullivan says. "We'll see a real fall-out on the yogurt chain side."

For precisely that reason, the company intends to expand into metropolitan market malls with its Treat Centers, a triple concept of Dairy Queen, Orange Julius, and Karmel Korn shops; 53 are up and running now.

Other new formats for expansion spring from Dairy Queen's foothold in rural markets; a deal with Amoco Corp. is bringing the chain to truck stops and service stations.

Carvel Corp., Yonkers, NY, is in for a major overhaul, under a new parent and new chief executive. The company, which had been operated by Tom Carvel since he founded it in 1934, was acquired for $80 million last November by Investcorp, a New York City-based investment bank. At press time, Steven Fellingham, most recently president of Kentucky Fried Chicken USA, was named chairman and CEO.

Modernization of facilities and of the Carvel image, upgraded service, and improved franchise relations are key goals for the new management, says Savio Tung, who is an Investcorp partner, and until Fellingham's appointment, was acting president of the ice cream chain.

"We need to be more current and more responsive to consumer trends, with downsized cakes, for example, or special-occasion cakes relating to football or baseball," Tung says. "And though our product is just as good as it's always been, we have to clean up the few dirty, aging units we have, and make the stores and packaging more appealing."

NEW IMAGE. A new ad agency and a $6 million campaign will trumpet the new image. Carvel also plans aggressive expansion to twice its current size within two years. "There are ideal pockets in the Northeast still to fill in, and we haven't been aggressive enough in the Southeast, which has a longer selling season," says Tung.

Another route for growth is the roll-out of frozen yogurt, which is currently offered in fewer than 100 locations. "Frozen yogurt also should increase our selling seasons, because people buy it as a lunch substitute, even in winter," Tung says. "We can put it right into 700 locations at nominal cost."

Similarly, Friendly Ice Cream Corp.,

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Wilbraham, MA, is seeking ways to revitalize its image—and frozen yogurt is playing a key role in its new program, says Jim Velis, director of public affairs.

"We see a natural fit between ice cream and frozen yogurt, and the toppings bar that we can use for both," he says. "Friendly has such a strong name in frozen desserts that anything in the category that we put our name on should do well. We are rolling yogurt out as quickly as we can."

Friendly offers two of its own yogurt products: a hard-pack yogurt in four flavors, which is available in-store or prepacked in half-gallons, and a soft-serve yogurt.

The 825-unit chain has announced that it intends to sell roughly 100 of its underperforming locations, primarily to raise capital to reinvest in the remaining stores. The revitalization program will upgrade the interiors with vibrant colors, improved lighting, and more use of brass and light wood.

The firm also has entered the wholesale ice cream business for the first time in its 55-year history, and is selling its frozen dessert line to supermarkets.

Steve's Ice Cream, the Lindenhurst, NY, firm that pioneered superpremium ice cream and mix-ins, has taken a distinctly different route to entering new product categories. Rather than offer new products under its own well-respected label, Steve's has moved into new areas of frozen desserts via the acquisition of complementary chains, each with a distinct product and brand.

"We didn't want to dilute our own brand identity," says Smith. "People don't think of Steve's when they think 'yogurt.' It weakens the name to extend it to such varied products."

So, two years ago, the 100-unit chain acquired the 300-unit Swensen's Ice Cream Parlors, known for an all-natural premium product. Last year, the company added the 100-unit Heidi's Frogen Yozurt Shoppes to the mix.

New products have lower fat, sugar, and calorie contents.

(Now the concept is known, more simply, as Heidi's Frozen Yogurt.)

"We're offering existing franchisees the opportunity to retrofit the other trademarks into their stores," says Smith. "Adding additional trademarks is absolutely increasing the revenue stream." Combined 1989 sales total $30 million.

The firm has no fear of cannibalization. "Some people will always want ice cream, some, yogurt. And with the current rents in city centers, no single concept can survive," he adds.

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Bresler's offers premium ice cream, gourmet yogurt, and nonfat Lite yogurt.

DESSERT COURTS. The thrust of the company's franchising efforts will be multiconcept dessert courts, Smith says. Steve's launched the franchise opportunity in January: three concepts for the price and space of one. Franchisees may combine either a Steve's or Swensen's unit with a Heidi's and, through a new licensing agreement, a David's Cookies section for $25,000.

As little as 800 sq. ft. will fit three modular units. Each section will hold a full product assortment, and have an individual look, down to the uniforms and paper goods, to preserve the brand identity. The chain expects to open 100 such concepts this year.

While Heidi's offers six flavors of its gourmet frozen yogurt and four flavors of light nonfat frozen yogurt, Steve's is by no means handing the lighter product sales over to Heidi's. Last year, the company introduced 12 flavors of a light version of its superpremium product.

"We were the first to introduce gourmet light ice cream in pints, and the first to advertise it on TV, and now we dominate that category," Smith says.

Steve's Gourmet Light has 7% butterfat, and the same all-natural ingredients used in its superpremium line. "It offers the same flavor, smoothness, and mouth feel as the superpremium," Smith claims."We expect most of our growth to come from there." Line extensions will include new flavors, novelty products, and a 6-oz. cup for delis and c-stores.

LIGHTER. The trend toward lighter eating has been demonstrated vividly at Bresler's Ice Cream and Yogurt, based in Des Plaines, IL. Frozen yogurt, which the chain introduced in July 1988, now accounts for more than 30% of sales. With the addition of Lite yogurt, sweetened with aspartame, Bresler's president David Lasky believes the yogurt category will capture about 50% of the chain's sales.

In the year since it was acquired by a group led by Lasky, Bresler's has also expanded its superpremium Royale Cremes to eight flavors, and has begun a program to upgrade store decor. Sales have increased by 6%, to $44 million from 300 units.

Bresler's also offers its own premium ice cream in hundreds of flavors, 24 at a time, Bresler's gourmet yogurt in 22 flavors, and the nonfat Lite yogurt in six flavors. Lasky plans to introduce a Lite ice cream soon.

"This is very much a growing segment," he says. "Ice cream has always been here and always will be—and other than supermarkets, consumers go to a specialty store for it. But everyone has a yogurt machine, and there will be a shakeout in the industry."

Lasky is, however, confident that new products will continue to drive the business. "With the advent of fat substitutes, for example, we have a phenomenal opportunity," he says. "Imagine how a chocolate chip ice cream without fat would sell."

NO SLOWING DOWN. The chains that have staked their fortunes principally on frozen yogurt seem confident that their established brand names and expertise in the product will carry them through any looming shakeout.

Certainly, frozen-yogurt segment leader TCBY shows no sign of slowing down. Since going public in 1984 with 102 units, the Little Rock, AR-based chain has surged to a current 1,600 units, with another 400 slated to open this year. Sales likewise have bounded forward from 1984's $11.5 million to $303 million last year.

While the company remains committed to a frozen yogurt-only format, it has launched a number of line extensions recently: the Shiver, a mix-in product; TCBY nonfat, no-cholesterol frozen yogurt; and sugar-free frozen yogurt.

The original TCBY product is available in over 50 flavors. Recent flavor introductions include banana/macadamia nut, cappuccino, pistachio, and amaretto cheesecake. Meanwhile, the nonfat product grew from four to 13 flavors within six months of its launch.

Take-home has also become an important focus for TCBY. The firm introduced ready-to-go novelty products last year, including the Yog-a-Bar (yogurt on a stick, covered with chocolate) and the Kiddiewich (a yogurt-filled cookie sandwich).

Competition is also coming from c-stores.

New kinds of locations and formats offer additional routes for unit expansion. A franchise agreement with Marriott Corp. will take TCBY into airports, toll road plazas, parking lot kiosks, and sports arenas.

The company has also developed a double-drive-thru concept to bring scaled-down units to smaller markets. Pushcarts, manufactured by a TCBY manufacturing subsidiary, will be another expansion strategy, the company says. Both soft-serve and prepared treats such as the Yog-a-Bar will be available in the pushcart locations.

MOVING ABROAD. International expansion accelerated for TCBY in 1989, with 30 new stores in five countries joining the 15 already in operation abroad. The two newest international markets for TCBY are Singapore and Malaysia. Japan is the next target: The company announced a joint venture for expansion there in January.

Similarly, Everything Yogurt is branching into new kinds of sites for expansion. The 14-year-old chain is breaking from its traditional mall locations and going into strip centers, with a format that includes seating. Colleges and hospitals are another target.

Everything Yogurt distinguishes itself from TCBY both by offering a dual concept with sister store Bananas Frosty Fruit Shakes, and by focusing solely on healthful items.

"Over the long term, the diversified concept is better," says Richard Nicotra, president."All one-concept chains,

whether cookies, cinammon rolls, or whatever, eventually find that they need to add variety to the line."

Everything Yogurt's adherence to healthful offerings is evident in its nine free, all-natural toppings. They include strawberries, granola, and carob chips. "We just don't believe in putting hot fudge or whipped cream on yogurt," Nicotra says. "It's a complete contradiction. That's one thing we market: Health is everything."

Apparently, the company's customers think so, too. More and more of the business derives from Everything Yogurt's nonfat product, now available in 22 flavors (including White Russian, cheesecake, and pistachio). The regular product contains only 2% fat, and comes in 29 flavors.

Another successful product shift was the switch last November from a branded, supplied yogurt to a proprietary product, Nicotra says. "The supplier has done a wonderful job establishing its brand, but now it's in every deli and dry cleaner. The change gave us our own identity, and saved franchisees 20%."

Everything Yogurt also offers a broad selection of food, including salads and entrees. The newest additions are yogurt muffins and low-cholesterol, low-calorie quiche.

The chain stretches down the eastern corrider, from Boston to Florida, with a current 251 units. Another 47 are under construction, and Nicotra expects 346 to be operating by year's end. Sales jumped 30% to $40 million in fiscal 1989.

This segment is maturing fast and facing saturation.

Penguin's Place, Thousand Oaks,

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CA, has been running in place over the last year; both sales and units remain at their year-ago levels of $35 million and 125 stores. The chain sees staying power in its foothold in the California market, and is eyeing the potential of picking up shares from weaker chains and independents as the market shakes out.

But Penguin's Place is not merely waiting for competition to disappear. In the last year, new product introductions included a line of six kinds of gourmet brownies, coffee and cappuccino, a fruit salad lunch plate, and smoothies.

In August of 1988, the then-four-year-old firm was acquired by the Paris-based Bon Grain, owner of the French chain Maison de Chocolat and the American C'est Si Bon.

CASH FLOW. "We were the classic small company that grew rapidly and needed cash," Hawfield says. "It's been a very good and supportive marriage." One fruit of the association was the company's switch to an exclusive yogurt formulation. Altogether, the chain offers 35 flavors, more than half of which are nonfat.

Hawfield is confident that, with the support of its new parent, Penguin's Place can maintain its leadership position in California, and in time become the dominant yogurt chain in the Western States. "We got ahead of the wave when we entered the market in 1984," he says. "Being first gave us some very good locations, a strong position in the market, and lots of visibility. Our brand recognition is two to three times that of our competitors."

While Penguin's Place is digging into its existing markets, Zack's Famous Frozen Yogurt, Metairie, LA, is eyeing international markets for growth. Currently, Zack's operates 140 units domestically, 40 in Canada, five in Taiwan, and eight in Japan, with sales in excess of $20 million, according to Steven Watts, president.

By June, Watts expects to have opened the Bahamas and Hong Kong markets. Korea, Singapore, and Thailand are also scheduled for Zack's stores this year. "The westernized

Asian market for ice cream is growing rapidly, and yogurt is following suit," Watts says. "The only difference for us has been with flavors. Asians prefer the fruit and less sweet flavorings."

FLURRY. Zack's offers a selection of 28 flavors, and has tested soups, salads, and pies. Sytemwide, however, only banana-nut bread and Zack's own cookies are offered, as is a "flurry" mix-in product. Also in test is a harder yogurt mix-in that uses crushed fresh fruit and candy.

Like the other chains, Zack's has recently introduced a fat-free, sugar-free product. Sweetened with aspartame, it has 18 calories per ounce, compared to the regular yogurt's 32 calories. Introduced last September in five flavors, the light yogurt has already captured one-fifth of sales, and will expand into other flavors.

The number of yogurt purveyors grew by 25% last year, from 1,923 to 2,564 units.

"We keep lowering the fat and sugar bit by bit, and each little bit has a big impact on the public," Watts says.

MAGIC FORMULA? While the established players in the segment are beginning to talk about market saturation, new players keep coming up hopefully to the yogurt dispenser. One is Malibu Magic, the East Windsor, CT, start-up owned by Howard Baldwin, former owner of the Hartford Whalers hockey league. The entrepreneur is bringing a new twist to the formula, however.

"With Howard's background and contacts, it's a natural for us to pursue

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agreements with large national concessions in stadiums," says Michael Seid, president. "In St. Louis' Busch Stadium and Cincinnati's Riverfront stadium—established ice cream markets—we outsold soft-serve ice cream."

Mass-gathering places, including concessions at airports, stadia, and cafeterias, are a linchpin of Malibu Magic's strategy. The plan is geared to creating mass exposure to the brand and the taste, more than to on-site sales. The firm also plans to introduce a hard-pack, nonfat product targeted to hospitals.

One Malibu Magic unit is now open in Bristol, CT. Another is in development in West Hartford, and four others are slated to open this spring.

Malibu Magic's single frozen yogurt is a nonfat product with active cultures that has at most 20 calories per ounce. The 42 flavors include amaretto, peanut butter, and boysenberry cheesecake.

The most popular new product is soft-serve with mix-ins.

TCBY has 1,600 units, with another 400 slated to open this year.

CASUALTY. Despite the continued allure of the frozen desserts market, one casualty recently hit the ground: Twistee Treat, the North Fort Myers, FL-based soft-serve ice cream company.

Last July, the firm entered Chapter XI, with losses of $4 million that year alone, and of $14 million since its creation in 1983. Half the units were then closed, and virtually the entire headquarters staff was laid off.

According to Joe Fite, who stepped into the presidency last year, "the problems had nothing to do with the segment or the competition, but with the errors made." Those included too-rapid expansion, too top-heavy an administration, and too many company-run stores.

At its height, Twistee Treat operated 42 units. Many have been sold, in many cases to the store managers, Fite says. As for the company itself, which has obligations to its shareholders, it is merging with a Texas company in an unrelated business.

SHAKEOUT. Undoubtedly, Twistee Treat will not be the last firm to exit the frozen-dessert segment. Penguin's Place's Hawfield believes that the market is already halfway through a shakeout, and that while the business will grow, so will the challenges.

"There will be more yogurt machines in c-stores and airports. And in the short term, that will give more people the opportunity to try frozen yogurt. But then? There will be new challenges for the retailer to create an experience and atmosphere that will attract customers specifically to his destination."